

CITY OF MARQUETTE, MICHIGAN
FEDERAL FINANCIAL ASSISTANCE
For the Year Ended June 30, 2006

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ANDERSON, TACKMAN & COMPANY, P.L.C.

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MARQUETTE

PARTNERS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor, Members of the
City Commission and City Manager
City of Marquette, Michigan

We have audited the financial statements of the governmental activities, business-type activities, discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marquette, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City of Marquette, Michigan's basic financial statements and have issued our report thereon December 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We did not audit the financial statements of the Board of Light and Power, a component unit of the City. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Board of Light and Power was based solely on the report of other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Marquette, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marquette, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings and questioned costs as items 06-1.

Honorable Mayor, Members of the
City Commission and City Manager
City of Marquette, Michigan

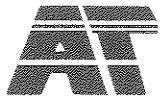
We also noted certain other matters that we reported to management of the City of Marquette, Michigan in a separate letter dated December 8, 2006.

This report is intended solely for the information and use of management, others within the organization, the City Commission, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC

Certified Public Accountants

December 8, 2006



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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor, Members of the
City Commission and City Manager
City of Marquette, Michigan

Compliance

We have audited the compliance of the City of Marquette, Michigan with types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Marquette, Michigan's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Marquette, Michigan's management. Our responsibility is to express an opinion on the City of Marquette, Michigan's compliance based on our audit.

The City of Marquette, Michigan's financial statements include the operations of the Marquette Housing Commission, a discretely presented component unit, which expended \$1,097,495 in federal awards which is not included in the City of Marquette, Michigan's schedule during the year ended June 30, 2006. Our audit, described below, did not include the operations of the Marquette Housing Commission because this component unit obtained a separate audit performed in accordance with OMB Circular A-144 to satisfy the U.S. Department of Housing and Urban Development audit requirements.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Marquette, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Marquette, Michigan's compliance with those requirements.

In our opinion, the City of Marquette, Michigan complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 06-2.

Honorable Mayor, Members of the
City Commission and City Manager
City of Marquette, Michigan

Internal Control Over Compliance

The management of the City of Marquette, Michigan is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Marquette, Michigan's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

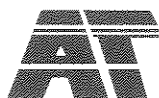
Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discreetly presented component units, each major fund, and the aggregate remaining fund information of the City of Marquette, Michigan, as of and for the year ended June 30, 2006, and have issued our report thereon dated December 8, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Marquette, Michigan's, basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of management, others within the organization, the Commission and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

December 8, 2006



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INDEPENDENT AUDITORS' REPORT

Honorable Mayor, Members of the City
Commission and the City Manager of the
City of Marquette, Michigan

We have audited the financial statements of the governmental activities, business-type activities, discretely presented component units, major funds, and remaining fund information, which collectively comprise the basic financial statements of the City of Marquette, Michigan as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Board of Light and Power, a component unit of the City, which represents 79 percent and 88 percent of the assets and revenues of the component unit column. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Board of Light and Power, is based solely on the report of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the report of the other auditors, provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, business-type activities, discretely presented component units, major funds and remaining fund information of the City of Marquette, Michigan at June 30, 2006, and the changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparison for the general fund and major special revenue funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 21 through 30 and the Analysis of Funding Progress on pages 88 through 90 (please refer to the Comprehensive Annual Financial Report for fiscal year ended June 30, 2006) are not required parts of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor, Members of the City
Commission and the City Manager of the
City of Marquette, Michigan

In accordance with Government Auditing Standards, we have also issued a separate report to management dated December 8, 2006 on our consideration of the City of Marquette, Michigan's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was made for the purpose of forming an opinion on the City of Marquette, Michigan's basic financial statements taken as a whole. The combining and individual fund statements and schedules as listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the City of Marquette, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory and statistical sections, as listed in the accompanying table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Anderson, Tackman & Company, PLC

Certified Public Accountants

December 8, 2006

CITY OF MARQUETTE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2006

Federal Grantor/Pass Through Grantor Program Title	Federal CFDA Number	Project Number	Project Period	Award Amount	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT <i>Passed through Michigan State Housing Development Authority - Office of Community Development:</i> Community Development Block Grant	14.228	MSC-2004-0931-RR	07/01/05-06/30/06	\$ 171,900	\$ 102,748
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					<u>102,748</u>
U.S. DEPARTMENT OF JUSTICE <i>Passed through Michigan Department of Community Health - Office of Drug Control Policy and the Michigan State Police:</i> Byrne Memorial Formula Grant Funding Byrne Memorial Formula Grant Funding	16.579 16.738	OCJ-70768-804B 70768-9-06-B	10/01/04-09/30/05 10/01/05-09/30/06	32,767 30,694	16,350 18,417 <u>34,767</u>
<i>Passed through Michigan Office of Drug Control Policy:</i> Local Law Enforcement Block Grant - Police Computer Forensic Lab	16.592	20051438	10/01/04-09/30/05	10,000	<u>330</u>
TOTAL U.S. DEPARTMENT OF JUSTICE					<u>35,097</u>
U.S. DEPARTMENT OF TRANSPORTATION: <i>Passed through Michigan Department of Transportation:</i> Highway Planning and Construction	20.205	81098A	08/15/05-06/30/06	650,000	<u>602,162</u>
<i>Passed through Michigan Office of Highway Safety Planning:</i> Drive Michigan Safety Task Force	20.600	PT-05-16	11/17/04-09/30/05	22,912	<u>6,175</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION					<u>608,337</u>
NATIONAL ENDOWMENT FOR THE ARTS: <i>Passed through Michigan Council for Arts and Cultural Affairs</i> Local Arts Agencies Services Grant	45.025	06SV0003ZZ	10/01/05-09/30/06	17,700	<u>1,300</u>
TOTAL NATIONAL ENDOWMENT FOR THE ARTS					<u>1,300</u>
U.S. DEPARTMENT OF HOMELAND SECURITY: <i>Direct Award:</i> Fire Safety Grant	97.044	EMW-2004-FP-02589	03/25/05-03/24/06	22,780	<u>17,557</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY					<u>17,557</u>
					<u>\$ 765,039</u>

CITY OF MARQUETTE, MICHIGAN
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

NOTE A – BASIS OF PRESENTATION:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Marquette, Michigan and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – OVERSIGHT AGENCY:

The U.S. Department of Transportation is the current year's oversight agency for the single audit as determined by the agency providing the largest share of the City of Marquette, Michigan's federal financial assistance.

CITY OF MARQUETTE, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

Financial Statements

- The auditors' report expresses an unqualified opinion on the financial statements of the City of Marquette, Michigan.
- Internal control over financial reporting:
No material weaknesses were identified.
There were no reportable conditions reported.
- A noncompliance item material to the financial statements was identified (refer to Section B).

Federal Awards

- Internal control over major programs:
No material weaknesses were identified.
No reportable conditions not considered to be material weaknesses were identified.
- The auditors' report expresses an unqualified opinion on the compliance for major programs.
- There was one audit finding that is required to be reported in accordance with Circular A-133, Section .510(a) (refer to Section C).

Major Programs

- The program tested as a major program was the Highway Planning and Construction Grant C.F.D.A. #20.205.
- The threshold for distinguishing Types A and B programs was \$300,000.
- The City of Marquette, Michigan was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

06-01 Condition/Criteria: At June 30, 2006, the City of Marquette, Michigan had an unrestricted equity deficit in the Downtown Development Authority General Fund in the amount of \$179,335. Public Act 275 of 1980 requires that a corrective action plan for the deficit is required to be filed with the State Treasurer within 90 days of the end of the fiscal year. As of this time, the City of Marquette, Michigan has not filed such a plan.

Effect: The City of Marquette, Michigan, is not in compliance with State Law.

Cause of Condition: Failure of operating revenues to cover operating expenditures in prior years.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT (Continued):

Recommendation: The City of Marquette, Michigan needs to either increase operating revenues or decrease operating expenditures in the future.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Gary Simpson, Finance Director
- Corrective Action Planned:
 - The revenue and expenditures will be more closely monitored.
- Anticipated Completion Date:
 - June 30, 2007

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARDS PROGRAM

**06-02 Highway Planning and Construction Grant – CFDA No. 20.205,
Project Number 81098A, Year ended June 30, 2006**

Condition/Criteria: This program allowed for 62 percent of federal matching dollars to construct a non-motorized trail within the City of Marquette, Michigan. Total project expenses reported to the Michigan Department of Transportation for federal reimbursement were overstated by \$30,907, which led to the City of Marquette, Michigan receiving an additional \$19,162 in federal reimbursement for which it was not entitled to receive.

Effect: The \$19,162 in additional federal money (62% of \$30,907 overstated expenses) is disallowed.

Cause of Condition: Retainage on the project was included in each individual request, and then at the end of the project retainage was requested in full.

Recommendation: Procedures should be established to ensure correct reporting of project expenditures prior to charging the expenses to a grant. Additionally, a reconciliation between program expenses and federal reimbursements should be made at the end of the grant period.

Management Response – Corrective Action Plan:

- Contact Person(s) Responsible for Correction:
 - Gary Simpson, Finance Director
- Corrective Action Planned:
 - The City agrees with the finding and auditor recommendations.
- Anticipated Completion Date:
 - June 30, 2007

CITY OF MARQUETTE, MICHIGAN
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2006

There were no prior year findings or questioned costs relating to the
City of Marquette, Michigan's major programs.